

Fortnightly - September 16, 2009

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

- 1.1 Bank of Israel Raised Rates Due to Local Recovery

On 24 August the Bank of Israel unanimously decided to raise September interest rates in an effort to bring inflation to within the target range and to continue to support the recovery of economic activity. The Bank of Israel was the first central bank internationally to raise the key lending rate, by a quarter point to 0.75% on August 24, which was the first time it had been raised since July 2008. In the discussion of the interest rate for September, all four members of the central bank's monetary forum recommended that the governor increase the interest rate. Three of them recommended an increase of a 0.25% and the fourth recommended an increase of 0.5%. Participants in the forum said the latest indications showed that Israel's economy had switched from rapid contraction to moderate growth in a wide range of industries. Nevertheless, they said activity was still at a low level, that the output gap was expected to continue widening and that unemployment was expected to increase in the next few months. Much concern was raised that the US economy, which greatly influences Israel's exports, would recover more slowly than the currently prevailing market assessments.

In addition, participants in the interest-rate meeting discussed the issue of inflationary pressures. Inflation in the previous 12 months was above the upper limit of the target range of 1% to 3% despite the low level of real activity. The participants said since some of the increased rate of inflation was due to one-off factors, its degree of persistence was expected to be low, while at the same time, the existence of the output gap and the relatively high rate of unemployment would act to moderate inflationary pressures. (JP08.09)

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1.2 Knesset Approves Extension of the Bottle Bill

The Israel Union for Environmental Defense (<http://www.adamteva.org.il>) reports that the Knesset has approved for continued legislation amendments to the Deposit Bill that include provision for recycling of 1.5 liter family size soft drink bottles. The Knesset has approved for legislative continuance government-proposed amendments to the Deposit Law (2001). The amendments passed first reading in the previous Knesset and now have the green light for continued legislative review. The amendments are aimed at broadening the scope of the "Bottle Bill", Israel's first targeted recycling law, to include 1.5 liter family-size soft drinks bottles that were excluded from law as passed in 2001. In a public opinion survey conducted by IUED this summer, over 75% of the 500 respondents support expansion of the Deposit Law to include 1.5 liter bottles. Some 30% confirmed that they are prepared to pay a higher deposit on 1.5 liter bottles if it leads to increased recycling and better public access to reclaiming deposits. (IUED03.09)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 BPT Closes \$12 Million in Series B Financing Led by US Venture Partners & Pitango

BPT has completed its Series B financing, raising \$12 million. U.S. Venture Partners (USVP) and Pitango Venture Capital led the round with participation from existing investors Aurum Ventures and Elron Electronic Industries. Funds will be used for expanding the manufacturing facilities, for continuing R&D and to further develop the sales and marketing infrastructure to meet increased worldwide demand. Rishon LeZion's BPT (<http://www.bpt.co.il>) is focused on developing and commercializing advanced membranes-based separation solutions to address the needs of the water and wastewater treatment industries. BPT's unique chemically-stable membrane technology and associated systems enable customers in the landfill, mining, chemical, biopharma and food industries to filter their aggressive waste water to be economically viable, re-use water and comply with environmental regulations. BPT provides solutions where other membrane-based technologies cannot withstand the aggressive waste characteristics and alternative technologies such as evaporators and incinerators are often not economically viable. BPT patent protected membranes and associated systems are field proven to enable lowest cost reclamation of some of the most aggressive and vexing industrial waste water streams. (BPT02.09)

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2.2 Tower Semiconductor Raises \$16 Million From Institutional Investors

Tower Semiconductor received and accepted orders from Israeli institutional investors of approximately \$15.8 million for cash investment in the Company's equity. In consideration for this cash investment, the Company has committed to issue to the investors 15.8 million ordinary shares. Total immediate proceeds amounted to approximately NIS 60 million (approximately \$15.8 million). The sale of the shares and warrants is being made under the previously filed shelf registration statement as was approved and declared effective by the SEC on February 15, 2008. Migdal Ha'Emek's Tower Semiconductor (<http://www.towersemi.com>), a global specialty foundry leader, manufactures integrated circuits with geometries ranging from 1.0 to 0.13-micron and provides complementary technical services and design support. Tower, along with its fully owned U.S. subsidiary, Jazz Semiconductor, Inc., offers a broad range of process technologies including Digital, Mixed-Signal and RFCMOS, HV CMOS, Power Management, Non-Volatile Memory (NVM), Embedded NVM, MEMS, and CMOS Image Sensors. (Tower 03.09)

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2.3 Beam Networks Awarded Grant to Develop of 60 GHz Wireless Analog Transceiver Technology

Beam Networks has been awarded a grant totaling approximately NIS 1.6 million (\$420,000) from Israel's prestigious Office of the Chief Scientist (OCS). This new funding from the OCS will be utilized to support the further development of Beam's 60 GHz wireless transceiver which is based on combining silicon germanium RF circuits, an extremely small array of antenna patches and unique analog beam steering technology. The OCS selects its recipients on various criteria including the financial strength of the company, the exceptionality of the company's innovative technology, the likelihood of market success and the potential of the company's technology to significantly improve existing products or processes. Tel Aviv's Beam Networks (<http://www.beamnetworks.com>) has developed a unique and innovative 60 GHz wireless technology capable of supporting multi-gigabit per second data rates. Beam's wireless technology will enable communications and computing products to transfer gigabits of content in seconds rather than the long wait times experienced today. Beam has chosen to focus exclusively on developing a 60 GHz analog universal transceiver. Unique analog beam steering electronics allow the Beam transceiver to simplify and eliminate costly baseband processing, leading to an overall lower wireless solution cost. Beam's analog beam steering approach is independent of any particular baseband solution, allowing support for multiple standards or proprietary approaches. (Beam Networks 11.09)

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2.4 Elbit Systems Completes \$18 Million Acquisition for 19% of Mikal

Elbit Systems announced further to its announcement on June 15 2009, that after receiving all the appropriate approvals (or authorizations), the \$18 million loan that was granted to Mikal Ltd., was converted to an equity investment, and Mikal will issue approximately 19% of its shares to Elbit Systems. As part of the agreement, Elbit Systems was granted the option to purchase the remaining shares of Mikal from the other shareholders, in the course of 2011, for a purchase price to be determined in accordance with an independent external valuation. Mikal is a holding company that provides commercial services such as power centers and venture-capital investments. The company caters to high-tech and industrial companies such as Soltam Systems and International Technologies Lasers (ITL). Mikal Ltd. is based in Tel Aviv, Israel.

Haifa's Elbit Systems (<http://www.elbitsystems.com>) is an international defense electronics company engaged in a wide range of defense-related programs throughout the world. The Company, which includes Elbit Systems and its subsidiaries, operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence surveillance and reconnaissance (C4ISR), unmanned air vehicle (UAV) systems, advanced electro-optics, electro-optic space systems, EW suites, airborne warning systems, ELINT systems, data links and military communications systems and radios. (Elbit Systems14.09)

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2.5 D&B Israel Says Local Honey Market Worth Some \$25 Million

Israel's honey market has an annual turnover of \$26.3m. Domestic production is 3,000 tons, worth \$13m and imports total 500 - 1,000 tons, with the same value, according to Dun and Bradstreet Israel. The Israel Honey Board estimates that 500 apiaries are currently in operation nationwide, operating 90,000 hives, each of which can produce 35 kilograms of honey a year. Dun and Bradstreet Israel says that there are 65 honey producers, 40 of which sell directly to consumers and 25 of which sell to authorized wholesalers who sell to retailers. Strauss Group owned Yad Mordechai Strauss Apiary is the largest producer, with a 60% market share. Emek Hefer Apiary has a 25% market share, with other apiaries sharing the rest. Dun and Bradstreet Israel noted that Israel's apiaries are considered stable: only 8.1% of the businesses in the industry are classified as high risk, compared with the national average of 13.7%. Israelis consume an average of 500 grams of honey a year. Some 60% of the country's honey is produced during spring. (Globes 15.09)

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2.6 Energy Recovery Helps IDE Technologies Expand Desalination Plant in Hadera, Israel

San Leandro, California's Energy Recovery, a leader in the design and development of energy recovery devices for desalination, announced that its PX Pressure Exchanger (PX) devices have been selected by IDE Technologies as it expands its seawater reverse osmosis (SWRO) desalination plant in Hadera, Israel. IDE selected ERI's PX technology as part of the initial plant design, and will rely on the devices to reduce energy consumption as the plant expands from a daily production capacity of 388,000 m³ (102.5 million gallons) to 462,000 m³ (122 million gallons) in total. Scheduled for total capacity commissioning by 2010, the Hadera plant will be the largest operating SWRO plant in the world and will help meet Israel's mounting demand for fresh water. The inclusion of ERI's technology in the Hadera expansion - along with the Palmachim plant expansion - highlights the superior performance capabilities of isobaric energy recovery devices compared to early-generation technologies. (ERI 15.09)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 Jordanian Stem Cell Company Acquires Stem Cell Technology From Stemedica International

San Diego, California's Stemedica Cell Technologies, a world leader in stem cell research and manufacturing, announced an agreement for its breakthrough stem cell and related technology. The Jordanian Stem Cell Company has signed a five year multi-million dollar agreement to purchase the technology from Stemedica's wholly-owned subsidiary, Stemedica International, S.A. The signing ceremony took place at the European Burns Association Congress in Lausanne, Switzerland. Headquartered in Amman, The Jordanian Stem Cell Company is Chaired by Prince Asem Bin Nayef. Stemedica International S.A. is a Lausanne, Switzerland-based, wholly owned subsidiary of Stemedica Cell Technologies, Inc. Stemedica is a developer and manufacturer of clinical grade stem cell products and is licensed by the State of California Food and Drug Branch. (Stemedica Cell 07.09)

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3.2 Kuwait Signs \$2.65 Billion Electricity Agreement to Boost Power Capacity

On 14 September GE Energy announced that the Kuwait Ministry of Electricity & Water has signed a turnkey contract with GE and Hyundai Heavy Industries totaling \$2.65 billion for a new, 2,000-megawatt (MW) power plant in Sabiya. The Government of Kuwait-owned plant will add much needed power to the grid, allowing Kuwait to boost electricity production to help meet growing demand. When completed, the plant will raise Kuwait's power capacity from current levels of around 11,000 megawatts. Kuwait's robust business and residential growth has strained the country's power generation capability, resulting in power outages during the hot summer months. Under its share of the contract, totaling \$1.3 billion, GE Energy will supply equipment and long-term services. On the equipment side, GE will supply three combined-cycle power blocks, including six Frame 9FA gas turbines, which will be equipped with the latest emission reducing technology that will support Kuwait's environmental needs, three steam turbines, nine generators and a turbine and plant level control protection system. Under the terms of the contract, GE also will operate and maintain the plant for seven years from the commercial operation date. The comprehensive services will provide GE's technical experience and support to guarantee availability of power during the summer months, when demand is the highest.

GE will begin shipping equipment by the middle of 2010. The Sabiya power plant is scheduled to come on line in two phases. The first phase will add 1,300 MW of capacity to the Kuwait electricity grid in 2011, with the second phase adding the remaining 700 MW in 2012. Primary fuel will be natural gas, with distillate as a backup. The gas and steam turbines will be manufactured at GE facilities in the USA. (GE14.09)

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3.3 Chicago Becomes Second U.S. Destination for Etihad

Etihad Airways, the national airline of the United Arab Emirates, has launched service to Chicago from its hub at Abu Dhabi in the United Arab Emirates. Etihad Flight EY151 from Abu Dhabi International Airport landed on 3 September at Chicago O'Hare International Airport. The launch of the new service - Etihad's third destination in North America after New York and Toronto - brings the number of international destinations served by the Abu Dhabi-based airline to 55 in the Middle East, Africa, Asia, Australia, Europe and North America. The Chicago flights, operating Wednesday-Friday-Sunday, depart Abu Dhabi at 1040 and arrive at O'Hare Terminal 5 at 1640 the same day. Return flight EY150 departs Chicago at 2030, arriving in Abu Dhabi at 1955 the next evening (local times). The service will increase to six per week (daily except Tuesday) from October 31 and to daily from the beginning of 2010. Chicago service will operate with an Airbus A340-500 configured to carry 240 passengers: 12 in Diamond First Class, 28 in Pearl Business and 200 in Coral Economy. In July, Etihad and American Airlines announced a wide ranging code-share agreement. The Etihad &'EY' code can now be seen on selected domestic and international services operated by American, and the &'AA' code has been placed on Etihad services to North America and Europe. (Etihad03.09)

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3.4 Lebanon's ACC Wins 124-floor Dubai Tower Deal

Lebanon's Arabian Construction Co (ACC) has won a \$397m contract in Dubai to build one of the world's tallest towers, the biggest skyscraper deal to be awarded in the emirate since the start of the global downturn. The Pentominium in Dubai Marina will be 124 floors high and the second-tallest building in the world after Emaar Properties' Burj Dubai, the construction firm said in a statement. It did not disclose an estimated height for the tower. Dubai-based contractors have been eyeing contracts elsewhere in the Gulf region and North Africa during the global economic downturn, as property prices in Dubai fell around 50% from peaks last year. ACC, which won the contract from Dubai-based Trident International Holding, said construction on the residential tower would take about two years to complete. The Burj Dubai is expected to reach 800 meters (2,625 feet) when completed later this year, though its ultimate height has been kept a secret. Nakheel, the state-owned developer of Dubai's palm-tree shaped islands, stopped work in January on its 1 km (3,281 feet) high tower due to the global financial downturn. Still, activity is gradually picking up in the construction sector. The ACC deal follows a \$187m contract in Dubai awarded on 25 August to the UAE's largest listed contractor Arabtec, which with Samsung Engineering and Construction is part of the team working on the Burj Dubai. (AB06.09)

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3.5 ETC Completes Psychrometric Test Facility for Alarko-Carrier in Turkey

Southampton, Pennsylvania's Environmental Tectonics Corporation's Testing & Simulations Systems (TSS) Division announced the completion of a 67 ton Psychrometric Test Facility used to test capacities of air-conditioners, heat pumps and rooftop air-handling units. ETC has been designing and manufacturing Testing and Simulations Systems for the Automotive and HVAC Industries for over 37 years. The test systems designed includes Environmentally Controlled Chambers, Psychrometric Test Rooms, A/C Systems Test Benches and Calorimeters, Component and Full Vehicle Development Wind Tunnels, Engine Development Systems and Emissions Testing Systems. (ETC14.09)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 Morgan Stanley Says: Fighting Shekel Appreciation A Losing Battle

Morgan Stanley analyst Tevfik Aksoy, after a recent visit to Israel, now says, "The fight to prevent shekel appreciation is a losing battle". Aksoy expects the shekel to appreciate to NIS 3.55/\$ by the middle of 2010, and to reach NIS 3.38/\$ by the end of that year. The forecast for currency strength accompanies Aksoy's optimistic outlook on Israel's economy. He finds that the recession, which he says is now over, was shallow and short. He attributes that to a lack of toxic assets on Israeli banks' balance sheets, the absence of a real estate price bubble, and mortgages which were backed with adequate collateral. However, the analyst also gives credit to the response by the Bank of Israel, which cut interest rates to historic lows, and to the fiscal policy adopted by the government. Following his meetings with major figures in Israel's economy, Aksoy revised upward his growth forecast for Israel's GDP, and now has the most bullish forecast on Israel's economy. He now expects positive growth in 2009 (despite the just-ended recession) of 0.2%, up from his previous call of -0.8% and expects 2.7% growth in 2010, up from his previous estimate of 2.1%. (Globes 13.09)

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4.2 Tunnel Work Set For Tel Aviv - Jerusalem Fast Train

Globes reported that Israel Railways is beginning to prepare for the quarrying of tunnels for the Tel Aviv-Jerusalem high-speed railway, a month after the National Planning and Building Commission rejected an alternative route proposed by environmental organizations. Israel Railways instructed Shafir Civil & Marine Engineering and its Austrian partner, Alpine Mayreder Bau, which won the tender to dig the tunnels, to get ready to work. The two tunnels along the C section of line between Shaar Hagai at the entrance to the Judean Mountains and Emek Arazim on the western edge of Jerusalem will cost NIS 1.6 billion to build. The tunneling is the most complex part of the engineering work on the railway line. Shafir and Alpine Mayreder Bau will dig two tunnels: a 1.2-kilometer tunnel, and an 11.5-kilometer tunnel, which will be Israel's

longest tunnel. They will also build a bridge over Nahal Yitla linking the two tunnels. (Globes 15.09)

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4.3 BDI Says Israel's Economy Improves Despite Worsening in Business Risk Index

On 8 September BDI Coface announced that, despite a further deterioration in its average weighted business risk index in August, the economic crisis in Israel has halted and companies are beginning to show signs of recovery. The average weighted business risk index rose 3% to 6.35 points in August from 6.19 points in July (a higher figure denotes greater risk). The index was 5.94 points in August 2008. BDI adds, however, that the crisis has ended and it predicts an improvement in the economy in the coming months. On the basis of data in its possession and on analysis of previous crises, companies' conditions, especially among retailers and manufacturers of consumer products, deteriorates at the point of emergence from a crisis because these companies are unable to adapt to a crisis, and usually fall. Other companies, especially chemicals and food manufacturers, are beginning to exploit the effect of the end of the crisis and are seeing signs of recovery. BDI classified 24.8% of companies as high risk in August, up from 21.9% of companies in July. These companies suffer from serious cash flow problems and are liable to close within two years. Business payment ethic was unchanged in August, from July. The average number of days in payment arrears was unchanged at 12 days. The average number of agreed upon supplier credit days fell by one day to 91 days. 28% of sectors of the economy reported a deterioration in payment ethic, while 62% of sectors reported an improvement. (Globes 08.09)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Central Bank Governor Says Lebanon's Economy to Grow 6% in 2009

Lebanese central bank Governor Riad Salameh said his country's economy will grow 6% this year as it continues to attract savings from Lebanese living abroad. Prime Minister-designate Hariri is still trying to form a cabinet, three months after winning the parliamentary elections, but economic growth seems to defy political paralysis. In an analysis by the IMF issued in August, experts from the IMF predicted that the Lebanese economy would grow faster and at a larger rate than the IMF expected for this year, i.e. 4%. The report said that a year ago, such an optimistic scenario was implausible, as the fragile national unity Cabinet focused on retaining short-term economic stability while preparing for the parliamentary elections. According to the IMF, bank deposits steadily grew by around 20% annually, while the Central Bank saw foreign reserves rising by 60% over a year. Economy minister Shatah told the press that all recent indicators showed that the Lebanese economy was progressing faster than expected a month ago. Shatah stated that the Paris 3 contributions, destined for the Lebanese Treasury, were late due to delayed reforms, namely in the power and telecommunications sectors. He noted that those contributions amounted to millions of dollars. (BI-ME 04.09)

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5.2 Kuwait Has No Plans to Return To Dollar Peg

Kuwait has no plan at the moment to re-link its dinar to the US dollar after two years of pegging to a basket of currencies, finance minister al-Shamali said in comments published on 9 September. The minister said the policy provides flexibility to the central bank in designing and executing its monetary policy. In May 2007, Kuwait ended almost five years of the dinar's link to the dollar and reverted to a basket of currencies in a bid to fight inflation that soared to record high levels before starting to decline late last year. The change to the dollar peg in 2003 was taken to facilitate the launch of the Gulf monetary union and single currency, which many observers now believe will be too difficult to launch on time in 2010.

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5.3 UAE Non-Oil Economy Grew 3.9% in 2008

Data from the UAE's Ministry of Economy shows that the country's non-oil economy expanded by about 3.9% in 2008 on high government spending and private investment. Growth was slightly lower than the 4% increase in 2007 but it remains relatively high considering the sharp slowdown in business activity in Q4/08 because of the global financial upheaval. UAE real GDP grew by about 7.4% in 2008 compared with nearly 5.9% in 2007. The rise in GDP was a result of higher growth in the oil sector as the UAE raised crude production. Real non-oil GDP jumped to AED294 billion in 2008, an increase of about 3.9% compared with AED282.9 billion in 2007. The oil sector surged by about 12% from AED215.2 billion to AED242.3 billion in the same period. Analysts expect a sharp fall in the UAE's oil sector in 2009 due to lower OPEC output quotas and to lower oil prices. The non-oil economy is expected to expand in 2009 as the UAE government maintains spending, the report said. (BI-ME 05.09)

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5.4 Saudi Inflation Drops to Two-Year Low Of 4.1%

The Saudi Central Department of Statistics announced that Saudi Arabian inflation slowed to 4.1% in August, the lowest rate in more than two years. The inflation rate fell to 4.1% last month, the lowest level since July 2007, after reaching a record 11.1% in July 2008. The Saudi Arabian central bank said on 1 September it expects inflationary pressures to continue to ease in the third quarter as steel, cement, food prices and international prices retreat. (BI-ME 14.09)

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5.5 Saudi Arabia Ranked 13th Most Competitive Economy in World Bank Report

Saudi Arabia has been rated as the 13th most economically competitive country in the world according to the International Finance Corporation (IFC)-World Bank annual Doing Business report issued this month. The report, Doing Business 2010: Reforming through Difficult Times, is based on data gathered from 183 countries from June 2008 to May 2009. The report highlighted the rapid rate of economic growth among Middle Eastern countries, specifically Saudi Arabia, as a result of economic sector reform. For the fifth consecutive year, Saudi Arabia was ranked as the best place to do business in the entire Middle East and the Arab World. This year's World Bank ranking demonstrates the Kingdom's continued progress towards its goal of becoming one of the top 10 most competitive countries in the world known as the "10 x 10 Program." Saudi Arabia's economic reforms, including its 2005 membership in the World Trade Organization, have attracted an increasing amount of foreign investment and increased diversity to the economy. In 2006, Saudi Arabia was the largest recipient of direct foreign investment in the Arab world. Since 2004, the Kingdom has advanced its overall Doing Business rankings, from 67th to 13th. (Royal Embassy of Saudi Arabia10.09)

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5.6 Egypt Named One of the World's Top Economic Reformers by World Bank

Egypt's Information Technology Industry Development Agency (ITIDA) says that despite tough economic conditions, Egypt is continuing to strengthen its position not only as one of the world's leading outsourcing destinations but also as a successful business location. Reports published recently by the World Economic Forum and the World Bank reveal that Egypt is becoming an increasingly competitive and growing economy. It is also proving easier for local and multinational companies to set up business operations in the country.

The recent reports seem to be consistent with the positive developments witnessed by the Egyptian economy especially in the ICT sector where multi-nationals like IBM, CISCO, Google and HSBC have opted for utilizing the wide array of competitive advantages offered by the country. In the IFC-World Bank Doing Business 2010 report, Egypt has risen sharply from 116th to 106th in the ranking on the ease of doing business, driven by regulatory reforms that have made it easier to start and operate a business in the country. The report highlights that governments in the Middle East and Africa are reforming at a rate similar to those in Eastern Europe and Central Asia and Egypt was highlighted as one of the region's most active reformers. In the past year, Egypt's reforms have made it easier to start a business, deal with construction permits, secure credit and enforce contracts.

Over the past five years, Egypt has implemented at least 19 reforms covering the areas measured by the report. Some of the reforms implemented include a cut in the personal tax rate from 32% to 20%; the halving of corporate tax from 42% to 20% and the simplification of tariffs. Egypt has also jumped 11 places in the World Economic Forum's Global Competitiveness Report 2009/2010 as a result of the recent liberalization efforts in the country. Egypt is now 70th in the rankings, up from 81st in 2008/2009. The World Economic Forum attributed the improvement in Egypt's ranking to the upgrading of its infrastructure across all categories and to positive developments related to labor market efficiency. One of Egypt's biggest growth areas is the communications and information technology sector, which grew by 14.6% in the fiscal year to June 2009. Reductions in piracy levels, introduction in e-signature law and anti-corruption initiatives have seen Egypt establish itself as one of the world's leading outsourcing destinations. (ITIDA10.09)

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5.7 Egyptian Urban Inflation Falls To 9% |

Urban consumer inflation in Egypt fell to 9% in the year to August, down from 9.9% in the year to July, figures from Egypt's state-run Capmas statistics agency showed on 9 September. Food prices continued to rise on a month-on-month basis, gaining 3.1% versus July, while most other categories were stable. The index for urban inflation, the most closely watched indicator of prices, was 138.7 in August compared to 136.6% in July and 127.2 in August 2008. The index figure provided by Capmas in July indicated an inflation rate of 9.98% in that month but was given as 9.9%, without explanation for the rounding discrepancy. (Capmas09.09)

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6: TURKISH, CYPRIOT, GREEK & BULGARIAN DEVELOPMENTS

6.1 Turkey's July CPI Drops to 5.39% Annual Rate

Turkey's consumer prices increased by a lower-than-expected 0.25% monthly rate in July, bringing the annual CPI inflation to 5.39% from 5.7% a month earlier. The markets forecast a 0.3% m/m increase in inflation. In June, CPI index rose 0.25% m/m. Food prices were up 0.64% m/m while alcoholic beverages tobacco prices component of the CPI index posted a 10.9% m/m increase. Data of the statistics institute also show that housing component and entertainment leisure item of the index registered 0.3% and 2.6% m/m increases, respectively. Transport prices were up 0.6% m/m. The central bank's favorite core inflation indicator, namely the I index (which excludes prices of energy, food non-alcoholic beverages, alcoholic beverages tobacco products and gold) fell 0.08% m/m. The central bank recently lowered its end-year consumer price inflation forecast for 2009 to 5.9% from 6% and said that the aggregate demand conditions would support disinflation for an extended period of time. The official inflation target for this year is 7.5%. On the PPI front, producer prices declined 0.71% m/m, after the PPI index increased 0.94% in June. The PPI index fell 3.75% y/y in July. Industrial and manufacturing prices declined 0.2% and 0.38% m/m, respectively. (Reporter07.09)

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6.2 Turkish Economy Shrinks 7% in Second Quarter

The Turkish economy contracted 7% in Q2/09, narrowly lower than the expected 8%. The number also indicates an improvement from the 13.8% contraction in the first quarter of the year. The Turkish Statistics Institute (TurkStat) announced the gross domestic product (GDP) figures for Q2 and thus for H1/09. According to production-based GDP calculations, GDP was down 7% in the second quarter over the same period a year ago on constant prices, dropping to TL 23.5 billion. With nominal prices, on the other hand, GDP was down by 4.4% in the given period to TL 228.8 billion. Over the same period a year ago, GDP was up 17.8% for current prices and 2.8% higher for constant prices over Q2/08. In dollar terms and with nominal prices, the Turkish economy receded by 22.9% to \$145.63 billion, TurkStat asserted. The government initially envisaged that the economy would grow 4% during the year, but later revised this figure to a

contraction of 3.6%, realizing that it was unavoidable for the economy to avoid a harsh blow from the global economic crisis.

As for the subsectors, the biggest contraction was witnessed in the construction industry, which shrunk by 21%. The main harbinger of consecutive growth performance in the economy for many years in the last decade, especially during the seven years prior to 2008, the construction business has now started to lose steam. Even recent reductions in mortgage interest rates seem not to be helping home sales increase again. In Q2/08, when the overall economy was performing positively, construction was down by 5.2%. The mining sector saw a sharp decline of 15.3% during the months of April, May and June this year. It had grown 7.7% in the same months of the previous year. The wholesale and retail trade sector, which enjoyed a growth of 4.5% a year ago, contracted 15% in the last quarter. The rate of contraction was 8.7% for the overall manufacturing industry in the second quarter of 2009. The same industry had registered a positive 4.5% growth last year. Among the sectors recording growth in the second quarter this year were the fishing sector (8.4%), agricultural, hunting and forestry sector (6.6%) and financial intermediary companies (7.5%). (Zaman11.09)

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6.3 Turkey & India to Sign Free Trade Agreement

On 8 September, Turkish State Minister Caglayan received Indian Commerce & Industry Minister Sharma in Ankara, where the two parties attended a meeting of the Turkey-India Economic and Technical Cooperation Joint Committee, following which Caglayan told reporters that they had reached an understanding with the Indian minister on a free trade agreement that is expected to be signed between the two countries. He noted that officials who will participate in drawing up the free trade agreement will meet in October. Caglayan said the trade volume between Turkey and India was \$3 billion in 2008. Infrastructure and superstructure construction projects - worth \$500 billion - will be implemented in India in the next 10 years. Caglayan stated that it was important that Turkish contractor companies undertake these projects. Caglayan also said the two countries could cooperate in the medical, chemical, communications, information technology and textile sectors. Caglayan stated that India would become a neighbor to Europe via Turkey with the planned free trade agreement. Meanwhile, the visiting minister told reporters that they would provide more incentives to companies in the public sector, adding that they would encourage companies to make mutual investments in Turkey and India. Sharma stated that this free trade agreement and economic cooperation in general would improve relations between Turkey and India. (TDN09.09)

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6.4 EU Awaiting Athens' Post-Election Update

As Greek election talk remained mainly focused on the economy, the European Commission reminded Athens on 14 September that regardless of who wins the most votes, the country needs to meet upcoming obligations to Brussels or face the consequences. The Greek government is required to fill the European Commission in on measures taken to reduce the budget deficit shortly after the October 4 elections. The European Commission will decide by the end of the year whether it will launch the punitive excessive deficit procedure against Greece for its large budget shortfall. The Economy & Finance Ministry had forecast the budget deficit this year to come in at 3.7% of GDP but sources have indicated the figure could be as high as 7% of GDP as the slowing economy weighs on tax revenues and spending exceeds targets. A number of other eurozone countries have also been told to take measures to fight their deficits,

including Ireland, Spain and France. Greece, however, has the added burden that it will need to push through structural changes to help make the economy more competitive, such as opening up the heavily regulated labor market. (Kathimerini14.09)

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6.5 Bulgaria's GDP Decline Deteriorates To 4.9% In Second Quarter of 2009

Bulgaria's gross domestic product (GDP) contracted by 4.9% in Q2/09, the first time the country's GDP marks a drop year-on-year in two successive quarters since the financial and economic crisis in 1997. The country's GDP shrank by 3.5% in Q1/09 on an annual basis. Bulgaria, the European Union's poorest member, has already entered recession with its economy shrinking 5% from January to March and contracting 1.6% in the fourth quarter on a quarterly basis. The country has seen its tax revenues falling as foreign investors flee, exports plunge and companies cut output. Bulgaria's exports and imports shrank 15.8 % year-on-year and 24.3 % year-on-year in the second quarter. Consumption went down by an annual 3.7 % in the second quarter from a 5.4 % drop in the first quarter. Industrial output shrank 7.2 % from April to June, the growth of services slowed down to 1.4 %. Investment shrank by 16.3 % in Q2/09 after dropping 14.1% in Q1/09. The government expects the contraction of Bulgaria's economy to slow down to 2% next year from a 6.3% shrinking in 2009. (SMM11.09)

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6.6 Bulgaria to Be Worst Hit By Global Crisis In Autumn

Bulgaria, like other eastern European countries, has already been hit by the global crisis, but Finance Minister Djankov says the hardest blow will come in the autumn. Bulgaria's economy may show the first signs of recovery at the beginning of 2010 and is likely to start a rebound in the spring next year, Djankov added. Given a healthy recovery of the economy, Djankov said plans for a 2% cut in the Value Added Tax (VAT) may be implemented in 2011, to be followed by another 2% decrease before the term of the government expires. Djankov said securing a loan from the IMF, following Latvia, Romania, Hungary and Ukraine among others, to support the currency peg to the euro, is not an immediate priority for the Bulgarian government. He confirmed government's plans to apply in November to join the exchange-rate mechanism, the European Union's two-year currency stability test before the country can drop the lev and adopt the euro, and leave the lev tightly pegged to the euro through the duration of the two years. According to him devaluing the lev, an option that has been supported by a number of experts, is out of the question. Bulgaria's center-right government approved at the end of August a mid-term fiscal policy document, which brings together the country's key macroeconomic forecasts for 2010-2013. The document forecasts the contraction of Bulgaria's economy to slow down to 2% next year from a 6.3% shrinking in 2009. The GERB party, which won the July election, has vowed to cut public spending by an additional BGN 1,156 B and improve tax collection to avoid slumping into a budget deficit at the end of the year. (SMN04.09)

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6.7 Bulgaria Supports South Stream

Bulgaria expressed its confidence that construction of the South Stream gas pipeline through its territory would go forward as planned, officials said. Bulgarian Prime Minister Borisov met his Russian counterpart Vladimir Putin on the sidelines of Polish commemorations marking the 70th anniversary of the start of World War II. Russia and Bulgaria have engaged in bilateral talks for the South Stream gas pipeline and the Burgas-Alexandroupolis oil pipeline. South Stream would bring natural gas from Central Asia and Russia to European markets through the Black Sea. Burgas-Alexandroupolis will bring Caspian and Russian oil through Greece. Putin left the door open for Bulgaria to back out of either project, but urged Sofia time was of the essence. Bulgaria is considering a series of local measures on the Burgas-Alexandroupolis pipeline construction. Borisov expressed support for that project but said he needed time to examine the issues. (UPI02.09)

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6.8 Netherlands Presses For Delay in Bulgaria's Schengen Entry

The Dutch government has dealt another blow to the new EU member state Bulgaria, saying it and Romania are still doing too little to tackle corruption and organized crime, and their management of EU funds is still below par. The conclusions were announced on 3 September in response to the progress report that the European Commission presented on 22 July under the Cooperation and Verification Mechanism (CVM) for the two countries. The Dutch government will continue to press for improvements in both countries at European level. If this does not happen, it will have consequences for the transfer of EU funds to the two countries and their accession to the Schengen area. The letter comes a month after a report of the European Commission suggested that an entry into the Schengen zone is not a likely prospect in the near future of Bulgaria even though there was no direct mention of its ambition to do so. Currently, Bulgarian citizens are allowed visa-free entry into the Schengen system and there is eased access to Bulgaria for Schengen visa holders, but the country is not a full member of the system. Bulgaria submitted its formal declaration of readiness in September 2007 and sent European authorities follow-up reports, penning in March 2011 as the target date for accession to the Schengen zone. The estimates turned meaningless due to a delay in the award of a tender to produce biometric passports and lack of progress on the second generation of the EU's Schengen Information System, more commonly known as SISII.

The Schengen Area is a group of twenty-five European countries which have abolished all border controls between each other. It originates from the eponymous agreement signed in the Luxembourgish town of Schengen in 1985, which has since been absorbed into the European Union. All EU members except Ireland and the United Kingdom are required to implement Schengen and - with the exceptions of Bulgaria, Cyprus and Romania - have done so. (SMN03.09)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Rosh Hashanah – the Jewish New Year

Rosh Hashanah, commonly known as the Jewish New Year, is celebrated on the first and second days of the Hebrew month of Tishrei. This year that date falls on the afternoon of 18 September and continues until the evening of 20 September. In Hebrew, Rosh Hashanah literally means "first of the year." The name Rosh Hashanah is not used in the Bible to discuss this holiday. The Bible refers to the holiday as Yom Ha-Zikaron (the day of remembrance) or Yom Truah (the day of the sounding of the shofar). The holiday is instituted in Leviticus 23:24-25. The shofar is a ram's horn; the sounding of the shofar in the synagogue is one of the most important observances of this holiday. The Bible gives no specific reason for this practice, though one that has been suggested is that the shofar's sound is a call to repentance. No work is permitted on Rosh Hashanah. Much of the day is spent in synagogue, where the regular daily liturgy is somewhat expanded. In fact, there is a special prayer book called the machzor used for Rosh Hashanah and Yom Kippur because of the extensive liturgical changes for these holidays. Religious services for the holiday focus on the concept of G-d's sovereignty. One popular observance during this holiday is eating apples dipped in honey, reflecting the wish for a sweet new year.

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7.2 Fast of Gedaliya Marked on 21 September

The Fast of Gedaliya (or Tzom Gedaliya, falling on the 3rd of Tishrei), follows Rosh Hashanah. This year it is observed on 21 September. It marks the assassination of Gedaliya ben Achikam and the exile of the small Jewish community that remained in Israel after the Destruction. When Nebuchadnezzar King of Babylonia, destroyed the Temple in Jerusalem in 586 BCE and exiled the Jewish people to Babylonia, he allowed an impoverished remnant to remain in the land and appointed Gedaliah Ben Achikam as their Governor. Many Jews who had fled to Moab, Ammon, Edom, and other neighboring lands returned to the land of Judea, tended the vineyards given to them by the king of Babylonia and enjoyed a new respite after their earlier oppression. However, political machinations led Yishmael Ben Netaniah, to assassinate Gedaliah. Yishmael murdered Gedaliah, together with most of the Jews who had joined him and numbers of Babylonians whom the Babylonian King had left with Gedaliah. The remaining Jews feared the vengeance of the Babylonian King and fled to Egypt. The surviving remnant of Jews was thus dispersed and the land remained desolate, until the Jewish polity was re-established in some 70 years' time. When Rosh Hashanah falls on Thursday and Friday, the fast is postponed till Sunday, since no public fast is observed on the Sabbath, except Yom Kippur. The fast is observed from daybreak until the stars appear in the evening.

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7.3 Yom Kippur – Holiest Day in the Jewish Calendar – Falls on 27/28 September

On the eve of 27 September and until after sunset on 28 September, Israel and world Jewry will observe Yom Kippur, or the Day of Atonement. The holiest day on the Jewish calendar, falling on the tenth of Tishri, it is a day marked by fasting, prayer and penitence for one's sins against their fellow man and G-d. Yom Kippur atones only for sins between

man and G-d, not for sins against another person. To atone for sins against another person, you must first seek reconciliation with that person, righting the wrongs you committed against them if possible. That must all be done before Yom Kippur.

Yom Kippur is a complete Sabbath; no work can be performed on that day. It is a complete, 25-hour fast beginning before sunset on the evening before Yom Kippur and ending after nightfall on the day of Yom Kippur. The Talmud also specifies additional restrictions that are less well-known: washing and bathing, anointing one's body (with cosmetics, deodorants, etc.), wearing leather shoes and engaging in sexual relations are all prohibited on Yom Kippur. As always, any of these restrictions can be lifted where a threat to life or health is involved. In fact, children under the age of nine and women in childbirth (from the time labor begins until three days after birth) are not permitted to fast, even if they want to. It is customary to wear white on the holiday, which symbolizes purity and calls to mind the promise that our sins shall be made as white as snow. The day long fast is widely observed even among Israel's secular public and most of the country's Jewish population attend all or part of the day's synagogue services. The fast is concluded with a shofar blast and rejoicing.

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7.4 Eid Al-Fitr to Begin on 20 September

Eid Al-Fitr, which marks the end of the holy month of Ramadan, will start on the October 1 (the first day of the month of Shawwal). The three day festival marks the end of Ramadan, the month of fasting. This festival is a time of gift giving and of giving alms. The fasting of Ramadan is meant to remind people what life is like for their less fortunate brethren and the alms giving at Eid (known as Zakat-el-Fitr) is a continuation along the same idea. Both fasting and the giving of alms are two of the five pillars of the Islamic faith. Ramadan is a holy month in which drinking, smoking and eating is prohibited. Fasting is forbidden on Eid el-Fitr and Moslems are encouraged to rise early and partake of some dates or a light, sweet snack, significant because for the past 30 days they have abstained from all food and drink from dawn till dusk. Muslims are encouraged to dress in their best clothes, new if possible, and to attend a special Eid prayer that is performed in congregation at mosques. Before the prayer the congregation recites the Takbiir: The Eid prayer is followed by a sermon and then a prayer asking for forgiveness, mercy and help for the plight of Muslims across the world. It is then customary to embrace the persons sitting on either side of you as well as your relatives, friends and acquaintances. Children are normally given gifts or money. Women (particularly mothers, wives, sisters and daughters) are normally given special gifts by their loved ones.

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*REGIONAL:

7.5 Lebanon's Saad Hariri Quits Over Cabinet Row

Saad Hariri, tasked with forming a new government in Lebanon as prime minister, stepped down on 10 September, days after opposition leaders rejected his Cabinet. Hariri and his March 14 slate narrowly defeated the opposition March 8

coalition in the June parliamentary elections. Picked as the next prime minister, Hariri promised to work quickly to form a new unity government. Through an agreement with the opposition, Hariri managed to secure a power-sharing arrangement with March 8 and supporters of Lebanese President Suleiman. But with questions over his Cabinet makeup and political defections, Hariri said he would step down. Analysts had expected political unity would be difficult in Lebanon despite Hariri's ability to pull rival leaders together. At the center of the issue was the appointment of caretaker Communications Minister Jebran Bassil with the opposition Free Patriotic Movement for the next Cabinet. Hezbollah and its allies lobbied for his appointment, though Bassil did not win in the June elections. March 14 still holds the majority, however, so Hariri may be ultimately reappointed prime minister. (Various10.09)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Can-Fite Announces Positive Results from its Psoriasis Phase II Trial with CF101

Can-Fite BioPharma announced that its 75-patient Phase II clinical study with CF101 to treat patients with moderate to severe Psoriasis has successfully met its primary objectives. Patients in this double-blind study were randomly assigned to 1, 2 or 4 mg of CF101 or placebo twice daily. The drug was taken orally as a monotherapy for 12 weeks. CF101 is a unique small molecule orally bioavailable drug with an impressive safety profile based on accumulated experience in more than 700 patients. CF101 was safe and well tolerated during the study period. This important safety result adds to the drug's remarkable safety record from past studies in more than 700 patients. The success in this study adds up to the success in a recently announced clinical study in dry eye patients. In both these studies the patients were treated with CF101 as a stand-alone treatment. Psoriasis and dry eye disease are inflammatory diseases. The success in both these studies points to the potential general efficacy of CF101 in treatment of inflammatory diseases, with very large market potential. Petah Tikva's Can-Fite Biopharma (<http://www.canfite.com>) is a public company traded on the Tel Aviv Stock Exchange. The Company focuses on the development of small molecule-based drugs that bind to receptors of cancerous or inflammatory cells and inhibit their development.

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8.2 FDA Grants Protalix Orphan Drug Designation for prGCD

Protalix BioTherapeutics received notice from the U.S. FDA that the FDA's Office of Orphan Products Development has granted orphan drug designation to prGCD, the Company's proprietary plant cell expressed recombinant form of glucocerebrosidase (GCD) for the treatment of Gaucher disease. Gaucher disease is a lysosomal storage disorder resulting from a deficiency or mutation of the GCD enzyme that can cause damage to the liver, spleen, bone marrow and in some cases, the central nervous system. The FDA grants orphan drug designation to drugs that may provide a significant therapeutic advantage over existing treatments and target conditions affecting 200,000 or fewer US patients per year. prGCD is currently being evaluated for the treatment of Gaucher disease in a Phase III clinical trial which is scheduled to end this month. The Company plans to announce top-line results from the Phase III trial in October 2009, and to complete filing of an NDA with the FDA before the end of the year. In addition, after the FDA's recent approval of the Company's treatment protocol for prGCD, the Company filed applications for medical Institutional Review Board (IRB) approvals in hospitals worldwide and expects to start treating patients under the extended access treatment protocol. Carmiel's Protalix (<http://www.protalix.com>) is a biopharmaceutical company. Its goal is to become a fully

integrated biopharmaceutical company focused on the development and commercialization of proprietary recombinant therapeutic proteins to be expressed through its proprietary plant cell based expression system. Protalix's ProCellEx presents a proprietary method for the expression of recombinant proteins that Protalix believes will allow for the cost-effective, industrial-scale production of recombinant therapeutic proteins in an environment free of mammalian components and viruses. (Protalix08.09)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 TraceSpan Adds Validation Capability to Its GPON Xpert Analyzer

TraceSpan Communications announced the Validation testing capability for its GPON Xpert analyzer. GPON Xpert is a passive multi-layer protocol analyzer for GPON networks, designed for R&D, laboratory and field application engineers engaged in the development, testing and deployment of GPON standard-compliant solutions. GPON Xpert cuts significant time from GPON development, deployment, debugging, and interoperability testing, thus accelerating time-to-market and return-on-investment. Now, with the new Validation testing capability, GPON Xpert makes life easier than ever before, as it enables the user to easily run a go/no-go test of the GPON network without being familiar with the details of GPON standards and technology. GPON Xpert comes with predefined Validation test scenarios based on the FSAN's recommendation for GPON Validation tests, which include processes such as ONT Bring-up, Software Image Download, Encryption and many more. It also allows advanced users to customize test scenarios for their own specific needs. The Validation testing capability is part of a new GPON Xpert software and firmware package version, which also includes some additional significant new features. This new version is available as a free-of-charge upgrade to all TraceSpan's customers who have a maintenance agreement for the GPON Xpert. It will also be included in all the new GPON Xpert units shipped from now on.

Ra'anana's TraceSpan Communications (<http://www.tracespan.com>) develops and manufactures innovative broadband monitoring solutions. Empowered by patent-pending breakthrough technology, TraceSpan's performance analysis and Lawful Interception products enable non-intrusive monitoring of data in broadband networks. TraceSpan's multi-layer analyzers are accepted worldwide as the industry's first passive analyzers for vendor-independent testing of VDSL2, ADSL2Plus, ADSL2, ADSL and GPON networks. (TraceSpan 08.09)

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9.2 Optibase Receives 2009 Internet Telephony IPTV Excellence Award for Outstanding Solutions

Optibase announced that Technology Marketing Corporation (TMC) has named its EZ TV System as a recipient of the 2009 IPTV Excellence Award presented by Internet Telephony magazine (www.itmag.com). The Second Annual IPTV Excellence Award winners are featured in the September 2009 issue of Internet Telephony. EZ TV System is an advanced application suite that empowers organizations to deliver live and on-demand video over local and wide area IP networks to every PC and Set Top Box. EZ TV allows military and law enforcement organizations, government agencies,

enterprises, and educational institutions to deliver their own custom lineups of locally produced, broadcast, and on-demand content. EZ TV Player provides PC users with an enhanced, interactive web-based viewing experience by supporting multi-format video feeds in mosaic views of 1, 4, 9 or 16 simultaneous streams. Automatic installation of its player at first entry from each desktop makes EZ TV System quick to set-up and easy to deploy. Its advanced management interface allows streaming hundreds of live channels and hours of VOD content from a central server. EZ TV System supports thousands of users with access privileges based on Microsoft Active Directory groups. Herzliya's Optibase (<http://www.optibase.com>) provides video over IP solutions, specializing in video encoding, decoding and streaming for federal and state government agencies, Telco operators, enterprise organizations and the world's leading broadcast service providers. With a collection of open, standards-based products, Optibase enables its customers to take full advantage of video distribution over their IP network, ensuring superb video quality in a scale of bit-rates for simple and effective video streaming to desktops, STBs and VOD applications. (TMC08.09)

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9.3 Wavion Releases Enhanced VoIP Support for Residential and Business Connectivity

Wavion announced the release of a new software version with enhanced support for Voice-over-IP (VoIP) applications for residential and business connectivity. Wavion base stations can now support a multitude of concurrent high quality voice calls in parallel to high capacity data flows. This capability is achieved by using a new mechanism that optimizes the air utilization and by leveraging Wavion's unique and powerful beamforming technology that provides robust and high quality links. The Wavion VoIP end to end solution integrates the WBS base station with off-the-shelf standard based components as Wi-Fi clients and a SIP based ATA devices for the voice device. The Wavion solution can run on both 2.4GHz and 5.8GHz license exempt bands. Wavion's Data and VoIP bundled solution optimizes the number of simultaneous calls, application priority and other consideration to support an end-to-end carrier grade voice and data services. Wavion's powerful spatially adaptive beamforming base stations provide extended range and higher throughput connectivity to standards-based Wi-Fi clients. Wavion's Wi-Fi solution requires one third of the units than other competing Access Points (APs) to cover the same area, with superior indoor penetration and fewer dead spots. This superior Wi-Fi performance makes Wavion an ideal infrastructure solution for wide-area metro coverage. Yokneam's Wavion (<http://www.wavionnetworks.com>) is transforming the metro Wi-Fi and rural markets with a new category of spatially adaptive base stations. The company's digital beamforming and SDMA technologies are the first and only to resolve the significant performance, penetration and profitability challenges facing large scale metro and rural deployments. (Wavion 08.09)

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9.4 Siano Unveils Newest Multi-Standard Mobile TV Chip

Siano Mobile Silicon launched a new multi- Standard mobile TV receiver chip, the SMS1230. The SMS1230 supports the major Global broadcast mobile TV standards of DVB-T, T-DMB, and ISDB-T, and, in addition, digital radio (DAB/+) and FM Radio. The new receiver chip, exhibiting the best performance in the mobile TV market, is the high-end member of Siano's multi-standard MDTV receiver chip family, which includes also the SMS1150, SMS1130 and the low cost SMS1140, launched earlier this year. The SMS1230 is a highly integrated, all-CMOS single chip receiver designed for high-end reception of mobile digital TV and radio, at low power consumption. Exceeding by far the performance requirements of technical specifications such as NORDIG and MBRAI, the SMS1230 has several unique features. Siano's SMS1230 enables reception of DVB-T at speeds of 200 Km/hour; In ISDB-T (deployed in Japan and Brazil); it exhibits extremely high immunity to analog and digital interfering signal. In addition, it supports digital radio - DAB and DAB+ technologies as well as analog FM radio. A combination of two SMS1230 units operating in harmony supports

antenna diversity, which further increases the reception performance.

Netanya's Siano Mobile Silicon (<http://www.siano-ms.com>) provides integrated silicon receiver and antenna chips for the mobile digital TV (MDTV) market. Tailored specifically for handheld and mobile devices, the company's multi-standard solutions combine high performance with extremely low power and ease-of-design. Siano's products are already shipped in mobile and portable devices all over the world and the company has built a vast customer base including tier-1 PC and mobile handset manufacturers. (Siano 08.09)

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9.5 OpTier Wins Innovation Award at 9th Annual Morgan Stanley CTO Summit

OpTier has been recognized with a CTO Summit Innovation Award by Morgan Stanley at the company's 9th annual CTO Summit. Each year, Morgan Stanley bestows the award on a highly innovative company that has presented at the CTO Summit and was subsequently deployed at Morgan Stanley. OpTier has worked with Morgan Stanley since 2004 and was first invited to present at the Summit in 2006. OpTier was chosen for the innovative implementation of its CoreFirst software for BTM on Morgan Stanley's new client-facing trading platform, Matrix. OpTier's CoreFirst software enables Morgan Stanley to monitor and improve trading transactions in real time across the Matrix trading platform, by helping to identify latency and concurrency issues in order to proactively prevent outages. This has helped to significantly improve service levels for Morgan Stanley's trading clients. The Summit, held last June in California, provides leading private technology companies with an opportunity to meet with key decision makers from Morgan Stanley's Technology organization. In addition to providing an overview and update on Morgan Stanley's technology strategy and outlook, the event provides an excellent opportunity for private companies to present their products and solicit feedback from Morgan Stanley's senior technology architects and managers.

OpTier (<http://www.optier.com>) harnesses the power of real business transactions with its unique Business Transaction Management (BTM) software solutions. Their CoreFirst product assures that business transactions flow smoothly within IT applications and infrastructure without bottlenecks or outages, for improved end-user experience and reduced cost. Their Active Context Tracking (ACT) technology delivers end-to-end visibility - of all business transactions, across all tiers, all the time - by continuously discovering the links between IT components and business services. It also prioritizes IT transactions and processes based on business needs, for true IT optimization. (OpTier08.09)

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9.6 Nova Announces Acceptance for Additional Stand Alone System From New Memory Customer

Nova Measuring Instruments has received acceptance for its Stand Alone Optical CD system from a new memory customer in the Asia Pacific region. On August 4, 2009, the Company reported revenues of \$7 million with breakeven non-GAAP net results and a GAAP net loss of \$0.1 million, for the second quarter of 2009. Rehovot's Nova Measuring Instruments (<http://www.nova.co.il>) develops, produces and markets advanced integrated and stand alone metrology solutions for the semiconductor manufacturing industry. Nova is traded on the NASDAQ & TASE under the symbol

NVMI. (Nova08.09)

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9.7 Agent Vi Announces the Launch of Vi-Search – Cutting-Edge Video Search & Analysis Software

Agent Video Intelligence (Agent Vi) announced the launch of its latest product – Vi-Search – a new video search and analysis software for instantaneous searches through stored video. Recognizing the tendency to under-utilize stored video due to the time-consuming and ineffective process of manual review, and the limitations of other solutions on the market, Agent Vi has developed this innovative video search software that enables rapid and effective retrieval and presentation of specific video segments from vast amounts of recorded video. Vi-Search also offers statistical analysis capabilities, such as analysis of motion patterns, traffic flows and traffic loads. Vi-Search analyzes the video stream and generates scene metadata of events and features in the video as it is recorded, and allows for later retrieval and analysis of specific video segments through an intuitive and automatic search within the metadata of the vast amounts of stored video. Vi-Search requires minimal setup and configuration, and through its user-friendly interface, supports all forms of analysis of stored video, including search by events, search for target type (People, Vehicles, Objects), search targets by color or size, motion path analysis, statistical traffic analysis, video summary, and more.

Kiryat Arie's Agent Video Intelligence (<http://www.agentvi.com>) is a leading provider of open-architecture, video analytics software deployed in a variety of security, safety and business intelligence applications worldwide. Agent Vi offers comprehensive video analytics solutions that are fully integrated with a range of third party edge devices and video management systems. (Agent Vi10.09)

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9.8 Alvarion & National Grid Conduct Smart Power Grid Proof of Concept in the U.S.

Alvarion will work with National Grid, the second-largest utility company in the U.S., to participate in a smart power grid (SPG) Proof of Concept with its BreezeMAX 3650 solution, as part of a technology test-bed for potential pilot projects in New York, Massachusetts and Rhode Island. The proof of concept will begin in September 2009, and will provide backhaul for SPG smart meters and distribution automation devices for residences and businesses using WiMAX technology. SPGs incorporate advanced two-way communications and distributed computing capabilities for improved control, efficiency, reliability and safety. Through this smart grid pilot, National Grid and Alvarion could give selected customers across the Northeast an opportunity to experience the benefits of this application through reduced energy consumption, reduced carbon emission and ultimately, a lower utility bill. Alvarion will help enable National Grid achieve a clean and efficient energy network of the future, for the region.

Tel Aviv's Alvarion (<http://www.alvarion.com>) is the largest WiMAX pure-player with the most extensive WiMAX customer base and over 250 commercial deployments around the globe. Committed to growing the WiMAX market, the company offers solutions for a wide range of frequency bands supporting a variety of business cases. Through its OPEN WiMAX

strategy, superior IP and OFDMA know-how and ability to deploy end-to-end turnkey WiMAX projects, Alvarion is shaping the new wireless broadband experience. (Alvarion10.09)

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9.9 Bezeq & Celeno to Jointly Pilot Advanced Home Networking Applications in Israel

Celero Communications and Bezeq, Israel's largest telecommunications provider, will jointly pilot innovative services over Celero's Wi-Fi home networking technology. During the pilot, Bezeq will distribute premium services in the home using Celero's robust, Wi-Fi home networking solution. As part of this pilot project, the companies plan to launch a number of home networking managed services including streaming "over the top" internet video content from the broadband router to multiple media adaptors, sharing HD content around the home between multiple devices (computers, storage devices and TV's), and more. Bezeq's NGN network is the most advanced broadband network in Israel, based on tens of thousands of optical fibers that Bezeq is currently installing throughout Israel in order to create a new and sophisticated telecommunications network that will provide ultra-fast Internet and advanced telephone services. Celero's Wi-Fi technology has been optimized for HD video streaming applications in the home and delivers the best-in-class robustness, throughput and coverage required for such demanding applications. Leveraging its digital transmit beam forming technology and its OptimizAIR feature suite, a Celero-enabled home network is capable of streaming multiple HD video streams to the edge of the house with flicker-free video quality.

Ra'anana's Celero (<http://www.celero.com>) is a leading provider of high performance Wi-Fi chips for HD multimedia and entertainment home networking applications. Powered by Celero's system-on-chip (SoC) and its OptimizAIR technology, home gateways, multi-room DVRs and media servers can distribute multiple and simultaneous HD video streams to standard set-top boxes, PCs, television sets and other WiFi enabled consumer devices. (Celero10.09)

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9.10 Altec Lansing Adopts Waves MaxxAudio Sound Enhancement Technology

Waves has announced that its MaxxAudio sound enhancement algorithms are now being implemented by Altec Lansing in their new inMotion Classic iMT620, portable stereo for iPhone and iPod. The latest Altec Lansing product to use Waves technology to improve audio performance, the inMotion Classic iMT620 is a portable, lightweight and compact speaker system for iPhone and iPod that offers a rich feature set and delivers amazing sound quality and clarity at any volume. These capabilities are certainly enhanced by the iMT620's onboard Waves MX5010 semiconductor, which hosts the MaxxAudio algorithms. Waves is the industry leader in professional audio digital signal processing technologies, heard on hit records, major motion pictures, and popular video games the world over. The MX5010 semiconductor employs these same recording studio algorithms, dramatically enabling the inMotion Classic iMT620 to deliver its outstanding sonic performance.

Tel Aviv's Waves (<http://www.waves.com>) is the world's leading developer of digital signal processing tools. Through every stage of the creative audio process, Waves is there, from recording to mixing to mastering to broadcast and

beyond. Over the past two decades, Waves has pioneered an entirely new kind of audio tool. Among Waves official endorsers are such luminaries as Kanye West, Beatles producer Sir George Martin, and Linkin Park. (Waves10.09)

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9.11 IQwind Named a Global Cleantech 100 Clean Technology Company

IQwind has been named a Global Cleantech 100 company by Guardian News and Media and Cleantech Group. IQwind received the award on the basis of its unique variable gearbox design, which can be both retrofitted into existing turbines and utilized as a standard component in newly-manufactured turbines. The high efficiency IQwind technology can reduce the cost of energy (COE) by up to 25% compared to the best existing wind turbines, increasing the overall potential and cost-effectiveness of wind as an alternative renewable energy source. The company has recently signed an agreement with Spain-based Guascor to jointly bring to market products based on the IQgearbox. The first product is a 750KW IQgearbox for the retrofit market planned to be launched next year. A new 2.5MW turbine (IQTurbine) based on the IQGear technology is currently in the design phase. The Global Cleantech 100 is the first ever list highlighting the most promising private clean technology companies around the world. Supported by the Carbon Trust, the Global Cleantech 100 recognizes companies at the forefront of cleantech innovation offering solutions to some of the world's most pressing environmental challenges.

Bazra, Israel's IQwind's (<http://www.IQwind.com>) patented technology advances the efficiency of wind energy production and significantly increases the return on investment for both existing and new wind turbines based on its variable gear solution. Consequently, the use of IQwind's technology will have a substantial positive impact on the economic viability of wind turbines as a source for clean renewable energy and the ensuing environmental benefits. (IQwind 11.09)

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9.12 Alpha Networks Selects Celeno CL1300 Wi-Fi Beamforming Chip

Celeno Communications and Taiwan's Alpha Networks, a global leader in the networking ODM/OEM industry, announced that Alpha has selected the Celeno CL1300 chipset for its next generation Beamforming-enabled Wi-Fi access point for optimized HD video streaming. Alpha will bundle this device with its extensive line of wireless networking and digital home devices to offer its customers a whole new HD experience. Alpha Networks is enhancing its rich product line with wireless HD capabilities by leveraging the Celeno field-proven implicit beam forming CL1300 chipset. The new Celeno-enabled Wi-Fi video access point device delivers HD performance over long distances and with wire-like robustness to any 3rd party Wi-Fi enabled device. Bundled with Alpha Networks digital home portfolio of Network Attached Storage (NAS), STB and Media Player devices and a variety of Wi-Fi client devices, the new video access point will enable service providers and leading OEM's to support innovative and exciting home networking applications. Celeno CL1300, powered by Celeno's OptimizAIR cross-layer optimization technology, is a field-proven solution for video over Wi-Fi distribution. Ra'anana's Celeno (<http://www.celeno.com>) is a leading provider of high performance Wi-Fi chips for HD multimedia and entertainment home networking applications. Powered by Celeno's system-on-chip (SoC) and its OptimizAIR technology, home gateways, multi-room DVRs and media servers can distribute multiple and simultaneous HD video streams to standard set-top boxes, PCs, television sets and other Wi-Fi enabled consumer devices. (Celeno11.09)

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9.13 Discretix Secures Mobile Content on HTC Phones

Kfar Netter, Israel's Discretix (<http://www.discretix.com>), the leading global provider of embedded security solutions, announced that HTC Corporation, a global designer of mobile phones, has selected Discretix to deliver OMA DRM (Digital Rights Management) capability in HTC's smartphones. The solution, already in deployment, is protecting all forms of premium content according to the latest OMA standards. The latest DRM specification from the Open Mobile Alliance standards body, adds several new features that reflect the changing needs of content usage. Most prominent are subscription based services as well as a metering capability that allows for royalty collection based on actual content usage. OMA DRM also adds support for user-editable metadata as well as inclusion of content issuer-defined metadata such as artist, title and genre information. Taiwan-based HTC is one of the fastest-growing companies in the mobile sector. (Discretix 14.09)

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9.14 Indian Telecommunication Carrier Selects Orckit-Corrigent's Carrier Ethernet Solution

Orckit Communications announced that its CM-4000 product was selected by a leading telecommunication service provider in India through an OEM channel. Orckit-Corrigent's solution will be deployed as part of a next generation triple play network based on GPON technologies. The total expected revenues to Orckit-Corrigent from the first phase of deployment through this OEM channel are approximately \$4m. Tel Aviv's Orckit (<http://www.orckit.com>) facilitates telecommunication providers' delivery of high capacity broadband residential, business and mobile services over wireline or wireless networks with its Orckit-Corrigent family of products. With 20 years of field experience, a reputable list of worldwide Tier-1 customers and sound leadership, the Company has a firm foothold in the ever-developing world of telecommunications. Orckit-Corrigent's product lines include: Carrier Ethernet + Transport (CE+T) switches - an MPLS-based portfolio enabling advanced packet as well as legacy services over packet networks with a wide set of transport features; and Personalized Video Distribution systems - an advanced video distribution portfolio, optimized for IPTV, enabling multiple HD streams per home over the existing DSL infrastructure. (Orckit 14.09)

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9.15 Alvarion Launches High-Performance Compact Outdoor WiMAX Base Station Solution

Alvarion launched its new BreezeMAX Macro base station in an outdoor configuration that implements the latest WiMAX 802.16e technology for multiple frequency bands. Focused on reducing operational expenses and increasing profitability, the new outdoor solution will offer deployment flexibility and modular design, enabling maximum investment protection for wireless operators. The BreezeMAX Macro Outdoor is commercially available today. The BreezeMAX

Macro Outdoor base station is an attractive solution for operators looking to expand their service for rural connectivity or in large metropolitan areas, where availability of cell site locations is limited and leasing fees are costly. Designed to compliment the existing base station offerings by enabling zero-footprint outdoor deployment scenarios for operators, the new BreezeMAX Macro Outdoor base station optimizes the installation space with a small lightweight form-factor that eliminates the need of an outdoor enclosure or cabinet. This product introduces an environmentally friendly weatherized system, avoiding the use of air-conditioning units, shelters and cabinets, while operating the system in extreme weather conditions. The new solution is part of Alvarion's end-to-end 4Motion Mobile WiMAX solution and will be available in a macro configuration initially.

Tel Aviv's Alvarion (<http://www.alvarion.com>) is the largest WiMAX pure-player with the most extensive WiMAX customer base and over 250 commercial deployments around the globe. Committed to growing the WiMAX market, the company offers solutions for a wide range of frequency bands supporting a variety of business cases. Through its OPEN WiMAX strategy, superior IP and OFDMA know-how and ability to deploy end-to-end turnkey WiMAX projects, Alvarion is shaping the new wireless broadband experience. (Alvarion14.09)

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9.16 First OPhone in China Now Shipping with Red Bend's Mobile Software Management

Red Bend Software announced that Beijing's Borqs, a leading open source mobile application software provider and integrator, is now shipping Red Bend's MSM software in the HTC A6188 mobile phone featuring the OPhone OS (Open Mobile Phone Operating System) developed by Borqs for China Mobile. In February, Red Bend announced that Borqs adopted Red Bend's vRapid Mobile software for firmware over-the-air (FOTA) updating and vDirect Mobile software for device management (DM) for use in its Google Android-based software platform. The HTC A6188 is available to customers of China Mobile, the world's largest mobile operator with nearly 500 million subscribers. More devices using the OPhone OS enabled with Red Bend's MSM software are planned for release this year, including the Lenovo ET70 and Dell Mini 3i smartphones. Red Bend's award-winning vRapid Mobile and vDirect Mobile solutions are used by the world's leading device manufacturers, operators and platform providers in the mobile, WiMAX and machine-to-machine (M2M) markets.

Hod HaSharon's Red Bend Software (<http://www.redbend.com>), the leader in Mobile Software Management (MSM), provides software solutions for managing firmware, applications and devices over the air. The company's award-winning MSM products enable device manufacturers, mobile operators and software developers to increase revenues, reduce support costs and achieve faster time to market by remotely managing their software assets on mobile devices. (Red Bend 14.09)

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9.17 RiT Technologies to Launch PatchView Version 6.0 With Enhanced Support for Datacenters

RiT Technologies launched Version 6.0 of its industry-leading PatchView intelligent infrastructure management solution.

The new version offers cutting-edge features designed for the challenging datacenter environment, including comprehensive support for blade servers, tools for real-time power monitoring and management, automated server provisioning and a crisp new look-and-feel. To facilitate smooth network operations in the dynamic people/workspace arena, PatchView Version 6.0 introduces an improved automated provisioning solution. In addition, the new version introduces advanced discovery capabilities, the key to optimizing the utilization of network assets and automating the task of complying with rigorous documentation standards. Deployed in hundreds of sites including some of the world's biggest networks and datacenters, RiT's PatchView has proven its value as a cost-effective tool for achieving maximum operational control, network reliability and resource utilization, while significantly reducing cost of ownership. Its rapid return-on-investment has been confirmed through deployments in enterprises and datacenters of all sizes and industries.

Tel Aviv's RiT (<http://www.rittech.com>) is a leading provider of intelligent solutions for infrastructure management, asset management, environment and security, and network utilization. RiT Enterprise solutions address datacenters, communication rooms and workspace environments, ensuring maximum utilization, reliability, decreased downtime, physical security, automated deployment, asset tracking, and troubleshooting. RiT Environment and Security solutions enable companies to effectively control their datacenters, communications rooms and remote physical sites and facilities in real-time, comprehensively and accurately. (RiT14.09)

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9.18 Tower Semiconductor Announces Co-Development of 700V Power Platform

Tower Semiconductor announced co-development of a 700V power platform to address next-generation industrial LED lighting requirements. The collaboration will combine GrandTek's 700V technology capability with Tower's advanced power management process and leading design kits to deliver the industry's most complete 700V foundry solution. An ultra low mask layer count will be achieved to provide the most cost-effective solution in a voltage regime with very few foundry providers. As an indication of strong market demand for 700V, SemiHow, a Korean-based fabless company has already signed on as an early adopter to use Tower's 700V power platform for AC to DC conversion targeting the industrial LED market. Tower expects to realize product revenue from SemiHow in the second quarter of 2010. Migdal Ha'Emek's Tower Semiconductor (<http://www.towersemi.com>) is a global specialty foundry leader and its fully owned subsidiary Jazz Semiconductor, a Tower Group Company is a leader in Analog-Intensive Mixed-Signal (AIMS) foundry solutions. Tower and Jazz manufacture integrated circuits with geometries ranging from 1.0 to 0.13-micron and provide industry leading design enablement tools to allow complex designs to be achieved quickly and more accurately. (Tower15.09)

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10: ISRAEL ECONOMIC STATISTICS

10.1 August Inflation Pushed Up By Housing Price Rises

The Central Bureau of Statistics announced on 15 September that Israel's Consumer Price Index (CPI) rose by 0.5% in

August, matching the pundits' forecasts. This makes year-to-date inflation 3.7% and inflation for the twelve months to the end of August 3%, at the top end of the government's price stability target range of 1-3%. The biggest contributor to the August inflation figure was the housing item, which rose by 1.2% and contributed more than half of the rise in the CPI last month. Another notable contributor to the rise in the CPI was home maintenance, which also rose by 1.2% in August, following the 7% increase in the price of water due to the drought levy charged on excess water consumption. The fruit and vegetables component of the CPI rose by 4.5% in August, while education and entertainment was up more than 1% due to the end of the summer vacation. However, clothing and footwear moderated the rise in the August CPI by falling 8%. (CBS15.09)

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10.2 Israel's Top 20% Earns 40% of Its Income

The Central Bureau of Statistics announced the 2008 Income Survey on 7 September that the top 20% of Israeli households earned 40.5% of total net income in 2008. The top 10% earned 24.3% of total net income, almost the same proportion as the 26% of total net income earned by the bottom half of Israelis. The findings showed that there was almost no change in income distribution in the decade between 1998 and 2008, except for the top 20%, who saw their proportion of net income rise from 39.3% to 40.5% at the expense of the bottom 30%. The Gini Coefficient, which measures income inequality, rose from 0.359 in 1997 to 0.384 in 2008. It rose sharply from 0.353 in 2000 to 0.387 in 2006. The higher the coefficient is, the less equal income distribution is.

There are also gender differences in income. The average gross monthly salary of men was NIS 9,627 in 2008, 57% higher than the average gross monthly salary of NIS 6,077 for women. Part of this difference is because, on average, men work ten hours a week more than women. Education also affects incomes. The average hourly pay of a person with a university degree is almost triple that of a person of an unskilled worker: NIS 75 per hour compared with NIS 26 per hour. The average gross monthly household income was NIS 13,339 in 2008, and the average net income, not including mandatory payments, was NIS 10,965, almost unchanged, in fixed prices, from 2007. Some 18% of gross household income goes to mandatory payments, such as income tax, National Insurance levies and the health tax. (CBS07.09)

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10.3 Israel's Classrooms Among World's Most Crowded

On 8 September the OECD issued an international survey report entitled "Education at a Glance." The research found that Israel's classrooms are among the world's most crowded. According to the report, there was an average of 27.6 children per class in elementary schools in Israel in 2007 compared with an overall average of 21.4 children per class in OECD countries. In junior high schools, the situation was even worse with an average of 32.7 children per class in Israel, compared with an overall average of 23.9 children per class in OECD countries. According to the report only Korea and Japan had more crowded classrooms than Israel. In terms of investment in education infrastructure, the report found that Israel invested more than the OECD average, investing 4.4% of its budget compared with an overall average of 4% in OECD countries. However, Israel's investment per child in elementary school was only \$4,923 compared with an overall average of \$6,437 per child in OECD countries and \$5,858 per student in high schools in Israel compared with \$8,006 per student in OECD countries. Between 1996 and 2006 OECD countries increased their

investment in education by 39% compared with a 9% increase in Israel over the same period. (Globes 08.09)

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11: In Depth

11.1 MIDDLE EAST: Frost & Sullivan Says Defense Spending to Exceed \$100 billion by 2014

Defense spending in the Middle East has been constantly growing, because all countries want to stay abreast with modern military technology to ensure that their military capabilities are wider and more effective. A recent study by Frost & Sullivan (<http://www.frost.com>) on 'The Middle East Defense Market' reveals that the defense spending in the Middle East region is expected to surpass \$100 billion by 2014.

Analysis from this Frost & Sullivan study finds that the substantial chunk of spending in Middle East is going to come from Saudi Arabia, Iraq, the UAE and Israel. Saudi Arabia's defense expenditure was around \$36 billion by the end of 2008.

One of the major countries for defense companies to target is Iraq. Iraq can be expected to invest heavily in upgrading its military infrastructure in the first part of the next decade. The spending might be as high as \$11 billion by 2014.

Although the UAE's spending might be affected by oil prices, it is still expected to invest in major procurements of platforms and ammunitions over the next five years. Israel has the second largest military expenditure in the Middle East. It is still expected to keep spending to stay ahead of its regional adversaries in order to protect its interests. Its defense spending for 2009 was around \$13 billion. Gautam Ganapathy, lead author on the study states-, 'The financial muscle of countries like Saudi Arabia, the UAE and Israel is enabling the Middle East to keep spending a huge chunk of their GDP on defense.

Although countries in the Middle East have relatively less number of active troops compared to the nations in the west, the ratio of their defense spending to that of their total GDP is highest in the world. 'One of the classic trends that can be seen in the Middle East defense market is the consistent defense spending of the Gulf Co operation Council (GCC) countries over the years. This is resulting in tremendous market opportunity for defense companies worldwide. Internal security issues will also drive the Middle East defense market in the years to come', said Balaji Srimoolanathan, Research Manager, Aerospace and Defense, Frost & Sullivan.

The study also finds that the economic downturn will not affect the defense spending in a marked way, because the spending pattern is more in line with threats and crisis situations rather than economy. Some of the key areas that defense companies must have increased focus on are defense electronics, soldier mechanization and simulation and training. (F&S02.09)

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11.2 IRAQ: National Implications of the Kurdish Elections

The Kurdistan Regional Government (KRG) parliament elected in July convened for the first time on August 20, ushering in a new political era in Iraqi Kurdistan. While the bloc including the long-dominant Kurdistan Democratic Party (KDP) and Patriotic Union of Kurdistan (PUK) currently controls a majority of 59 out of 111 seats, the new Gorran ("Change") Party has 26, and the Services and Reform bloc (including Islamists and socialists) has 13, in addition to a few seats won by smaller parties and 11 set aside for Turkoman and Christian minorities. Moreover, because Gorran is led by PUK founder Mustapha Nechirwan and drew its votes mainly from PUK areas, the new situation is likely to spur calls for reform and leadership change within the PUK. That would make it a less reliable partner for the KDP, and will increase the likelihood of heated debate and multi-party bargaining in the parliament.

This political change in the KRG coincides with an important period in relations with the federal government in Baghdad, as Iraq prepares for national elections on January 16, 2010. It is not yet clear how large a role Kurds will play in the campaign. It is possible that Iraqi political campaigns will stress Arab nationalist themes at the expense of the Kurds, or alternatively that various factions will court Kurds, knowing they will need their votes in the new parliament.

At present, the scenario of other factions courting Kurds seems more likely. The KDP and PUK will contest the national elections as one list and Gorran will compete as another, but the two Kurdish blocs have agreed to pool their votes in the national parliament. This means that Kurds are likely to win some 50 out of 275 seats, which will likely be the largest single bloc in parliament. If electoral legislation is passed as it currently stands, the Kurds will also probably receive a seat on the three-member presidency council alongside a Shi'i Arab and a Sunni Arab representative, allowing them to veto legislation and prevent its passage unless parliament achieves the difficult task of mustering a two-thirds majority. These factors could make the Kurds an indispensable ally in forming the next Iraqi government, particularly if Arab factions remain divided along factional and sectarian lines.

While there is now less risk of an anti-Kurdish theme emerging in the coming elections, as well as strong potential for a post-electoral compromise on federal-KRG revenue sharing, agreeing on the joint administration of disputed territories will be more complex. The first problem to resolve is provincial elections in Kirkuk, the only governorate outside the KRG not included in the January 31, 2009 provincial elections. Kurdish groups were unable to obtain the holding a national census on October 24, 2009 - the scheduled census has been cancelled due to the political sensitivity of the issue. The KDP and PUK now want to hold provincial elections in Kirkuk to coincide with the January 16, 2010 national elections. Turkoman and Arab groups in Kirkuk want a special elections law to be passed that allocates more seats on the provincial council to each ethnic group. Both sides appear to recognize that Kurds now significantly outnumber other ethnic groups in Kirkuk, though polling or voting in Kirkuk would be undermined by disagreements over who is eligible to register as a resident of the province.

International Role

Although the United Nations Assistance Mission in Iraq has convened a task force of senior federal and Kurdish leaders, the key external influence on federal-KRG issues remains the United States. The U.S. military presence in Iraq is due to decline during 2010 and largely disappear either at the beginning of 2011 (if the January 16, 2010 referendum rejects the U.S.-Iraq security agreement) or by the end of 2011 at the latest. This puts the United States under pressure to move the political process forward, and to prevent local clashes between Arabs and Kurds in the meantime.

When Prime Minister Nouri al-Maliki came to Washington DC in July 2009, every U.S. official he met advised him to boost his political efforts to reach an accommodation with the Kurds. When a string of senior U.S. military leaders visited the KRG in late summer, they also strongly urged the Kurdish leadership to take steps to reduce tensions. These twin pressures – the political importance of the Kurds within Iraq as well as U.S. lobbying – induced Maliki to make his first visit to the KRG on August 2, where he publicly congratulated President Masoud Barzani on his re-election and made a well-received symbolic speech at Halabja, the site of 1988 chemical weapons attacks that killed more than 5,000 Kurdish civilians.

On August 18, Multinational Forces commander General Ray Odierno proposed a temporary increase in the presence of U.S. forces along the federal-KRG disputed internal border. This force would form tripartite U.S.-federal-Kurdish security headquarters along the disputed areas to coordinate security and reduce the risk of clashes between Arab and Kurdish security forces. Though smaller in scale, the idea resembles the U.S. surge of forces deployed to reduce sectarian violence in central Iraq in 2008.

Looking Ahead

The next year will be a critical moment in Iraqi federal-Kurdish relations. Some hard line advocates of an independent Kurdish state in northern Iraq believe that the KRG will eventually be better off without Iraq and will instead form military and economic ties with Turkey, providing Ankara with a stable southern border and an interlocutor in its struggle with Kurdish nationalism. Other Kurdish leaders such as KRG Prime Minister Barham Saleh have consistently looked to Baghdad as the KRG's long-term partner. The new parliamentary balance in the KRG has potentially given more strength to Kurdish advocates of a compromise with Baghdad. Strong U.S. pressure is pushing towards a federal-KRG deal. The major Arab factions will probably need a Kurdish political ally to form a national government. These factors, combined, suggest that there may be hope for the beginning of an Arab-Kurdish compromise in 2010.

Michael Knights is the Lafer International Fellow at the Washington Institute for Near East Policy. (ARBSep. 2009)

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11.3 YEMEN: Increasing Importance in the Regional Struggle

Yoel Guzansky of the Institute for national Security Studies (<http://www.inss.org.il>) writes that far from the public eye and the media, the importance of Yemen as an arena of struggle between regional powers is growing. The primary threat to

Yemen in recent years is linked to the ongoing fighting in the country's northwestern region. Fighting erupted again in early August, adding another dimension of instability to a country already confronting a separatist struggle in the south and global jihad activity, and that has lately become a way station for smugglers of arms destined in part for Hamas.

As part of the current (sixth) round of fighting, government forces are attempting to put down the rebellion led by Abdul Malik al-Houthi, whose men are in control of the mountainous Sa'dah province in the northwest, near the border with Saudi Arabia. There has been periodic fighting since June 2004, with each wave of combat increasingly brutal, resulting in thousands of injured and massive damage. Although there is no foundation for the Yemeni government's claim that the three uprisings – the separatists in the south, the strengthening of jihadists identified with al-Qaeda, and the Shiite rebellion in the north – are united against it, their combination is worrisome. The current violence threatens not only Yemen's unity and stability, but also the security of Saudi Arabia and the Arabian Peninsula. It joins the growing attempts of organizations identified with al-Qaeda to take on the Yemeni government as well as the Saudi royal house, as may be inferred from the attempted recent terrorist attack originating from Yemen that targeted the Saudi royal family. In this attack, Prince Naif, one of the kingdom's leaders in the war on terror and the son of the number three man in the Saudi hierarchy, was lightly injured.

To a large extent the fighting of the Yemeni government against the Houthi rebels represents a microcosm of the religious, social, economic, political and regional tensions seething underneath the surface. From afar, one could presume that the conflict is an armed struggle between armed groups and the government – a local Yemeni issue – but the struggle has additional layers, among them the struggle between the Iranian-led radical bloc and the bloc of pragmatic countries, led in part by Saudi Arabia.

The last round of fighting erupted as the result of the collapse of the ceasefire, which went into effect on June 16, 2007, and the breach of the official agreement signed in Doha on February 2, 2008, with the mediation of the emir of Qatar, al-Thani. According to the agreement, the government was supposed to compensate people injured or otherwise affected by military actions, assist in the rebuilding of the villages that sustained damage, and cease from further military attacks. In exchange, the Houthis pledged to lay down their weapons and preserve the peace in the province. Despite the reduction in the scope of fighting, sporadic clashes between the sides continued, even after Yemeni president Saleh declared a unilateral ceasefire in honor of his 30 years in office, possibly knowing that he was incapable of putting the uprising down.

While the rebels belong to the Zaydi sect of Shiite Islam, a somewhat different Shia current than customarily found in Iran, Iran did not hesitate – according to the Sana'a government – to support the rebels as early as 2004. Senior Yemeni government officials have on more than one occasion accused Iran of supplying weapons, financing, and training to the military wing of the rebels, the al-Shabab al-Mum'en (Believing Youth). Recently, the Yemeni minister of information al-Louzi accused “foreign elements” of providing the Shiite rebels in Sa'dah province with economic and political assistance and with “harming Yemen's security and stability.” Moreover, it was announced that Minister of Foreign Affairs Kirbi met with the Iranian ambassador to Sana'a in order to “warn Iran about steps that the Yemeni government would take” in response to the fact that media elements identified with Iran are fanning the flames of the conflict and are in practice serving as tools for the rebels. This situation, should it continue, will have negative implications for the Iran-Yemen relationship,” added the minister.

In a step that could be interpreted as support for the rebels, Iran's minister of foreign affairs Moutaki, who met with the Yemeni ambassador to Tehran, expressed “deep concern for the situation of the Shiites in Yemen,” while emphasizing the importance of correct relations between the government in Sana'a and the Shiites in Yemen. In recent weeks, media sources identified with Tehran have reported that the Saudi air force is involved in bombing rebel strongholds within Yemenite territory (also in an attempt to prevent the fighting from spreading to within its own borders), and that Saudi Arabia has even promised Yemeni president Saleh to finance his war against the rebels. Saudi Arabia has not officially responded to these reports, but Saudi newspapers frequently accuse Iran of aiding the rebels. In the current round of fighting, both sides have rejected a ceasefire proposal; the government has claimed the latest offer has

"nothing new in it" and countered by presenting a list of demands of the rebels: open blocked roads; remove landmines and booby traps; retreat from the stronghold in the mountains; return stolen equipment; release captives, and cease all involvement in internal politics.

According to the Yemeni government, the fourth round of fighting (February-June 2007) was touched off by Houthi threats against the Jewish community in Sa'dah, claims refuted by the rebels. Nonetheless, in the wake of persecution, the government moved a number of Jewish families from Sa'dah to Sana'a and reportedly provided them with housing.

What are the rebels' demands? In general, they seek greater autonomy over their own affairs, as well as the release of their imprisoned supporters and an end to attacks by the security forces and the ongoing repression, which they claim defines the government's attitude towards them. They oppose the growing warmth and increased cooperation between Yemen and the United States, especially on the fight against terrorism, as well as Saudi intervention in Yemen's internal politics. The rebels charge that Saudi Arabia is financing the Yemeni government and aiding Sunni tribal elements.

Because of the media blackout, the precise number of losses on either side is not clear, but it is known that the Yemeni government is using its armored troops, artillery, and airpower to quash the uprising once and for all (according to an announcement made by President Saleh) and perhaps also to signal the separatists in the south that the government is determined to fight for national unity. Estimates are that some 100,000 residents, mainly women and children, have fled their homes, but the intensity of the fighting, the nature of the terrain and the government blackout make it difficult both for UN aid forces and for the media to enter the combat zones.

Even if the accusations by Iran and Saudi Arabia are more propaganda than fact, the warfare is not only an internal threat against Yemen's unity, but also a growing threat to Saudi Arabia, the Arabian Peninsula and the entire region. To a great extent the fighting is turning Yemen into another arena of struggle (highly important because of its strategic location) between the pragmatic Sunnis seeking to include Yemen in their midst and radical Shiite Iran, which is seeking to expand its regional influence and establish a presence in the Red Sea and Horn of Africa arena. Iran has increased the presence of its navy in the Gulf of Aden area (claiming it aims to deal with the rising piracy in the region). It is also advancing its political influence and bolstering its economic links with Sudan, Djibouti and Eritrea in a way that will allow it to maintain an active military presence in the Red Sea and afford Iran the option of using this military presence against Israel.

Unlike its neighbors in the Arabian Peninsula and the Persian Gulf that also want to curb Iran's influence, Yemen is incapable of effectively controlling all of its sovereign territory, and this provides various radicals with free access to the Gulf states, the Horn of Africa, and the countries along the Red Sea. Yemen has also recently invited renewed interest because of American military concerns of al-Qaeda's attempts to set up a regional base. About a month ago, US CENTCOM commander General Petraeus visited Yemen and pledged to help the government prevent terrorism. It is not clear if the US is also assisting the government in Sana'a against the uprising in the north, and if the visit included this objective.

Even if the conflict in Yemen is far from TV screens, it has major regional significance. Beyond Yemen's internal stability, it is another test for the ability of the pragmatic nations to curb Iran's regional influence. Thus even if the current outbreak of violence ends with another ceasefire, its stability will likely be tested before long. (INSS09.09)

11.4 ALGERIA: Agribusiness Report Q3 2009

Research and Markets (<http://www.researchandmarkets.com>) announced the addition of the "Algeria Agribusiness Report Q3 2009" report to their offering.

Algeria, the second largest of Africa's economies, has increasingly struggled with food security in recent years. A dry and arid climate, limited water resources and an inability to procure adequate fertilizer volumes are just some of the factors affecting production. Meanwhile, an increasingly affluent society with burgeoning consumption demand has compounded Algeria's position as a net food importer. In the latest Algeria Agribusiness Report considers the potential for Algerian agriculture as diminishing petrodollars accelerate state plans for economic diversification.

Improving the productivity of the country's agricultural sector remains a priority concern for the Algerian government as the subject of food self-sufficiency becomes a regional obsession for countries in the Middle East and North Africa (MENA) region with limited farming potential. Earlier in 2009, the Arab Centre for the Studies of Arid Zones and Dry Lands (ACSAD) held its first conference for developing agricultural research and co-operation in the region, which, alongside the privatization of various state owned production units, is hoped to encourage a greater degree of private sector market participation.

The government has sought to initiate agricultural reforms in order to help producers gain the best possible yields from the sector. Fundamentals concerning food safety, productivity and relevant seed/crop types are among some of the areas that have been targeted. The dairy industry in particular is seen as the sub-sector holding the most potential in terms of domestic and export demand and the state has been keen to improve the scale and quality of the industry, particularly as the EU - where Algeria sources nearly two thirds of its dairy imports - is likely to have less white goods for exports as it exercises its attempts to streamline the industry by phasing out production quotas.

To this end, Algeria has been less than shy in seeking production tips from some of the world's agricultural big hitters. For example, Brazil, from which Algeria is one of the biggest importers of milk powder, is being enlisted to help the MENA nation - improve its dairy outlook. An Algerian delegation recently visited Latin America to open talks with dairy officials regarding the prospect of technical assistance with dairy production in return for concessions on Algerian fossil fuels. Similarly so with grains production, where Brazil has successfully adopted the use of seeds with attributes potentially suitable for cultivation in the arid deserts of Algeria.

For the last couple of decades the state has provided subsidies and aid to farmers in order to encourage production. Furthermore, food subsidies have been given to those in society less able to afford staple consumption goods, although this dynamic is coming under pressure as the economic rationale of continued subsidies is being questioned.

There are some major caveats on Algeria's agricultural outlook throughout the projection period; not least a lack of access to credit for the small farmers who comprise the bulk of the farming community. They claim that the government prefers to give loans to large scale producers, while a lack of titled holdings makes it nigh on impossible for smaller farms

to provide any kind of collateral. Moreover, fertilizer distribution is controlled aggressively by the state with smaller farms again most likely to lose out to their larger counterparts in securing the relevant inputs.

Consequently, we have a mixed outlook on Algeria over the course of our forecast. Wheat and barley are predicted to receive double digit production growth, while consumption in the former will post similarly strong gains. Corn output will continue to stagnate; at the same time the dairy industry will also see decent performance, although domestic milk producing capacity will be insufficient to feed the needs of the dairy processing sector, meaning that the import burden will continue to weigh quite heavily. Overall, we expect the country to remain a net importer, although with improved productivity in some staple foodstuffs. (R&M14.09)

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11.5 MOROCCO: Fitch Affirms Morocco at 'BBB-'; Stable Outlook

On 14 September Fitch Ratings (<http://www.fitchratings.com>) affirmed the Kingdom of Morocco's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'BBB-' and 'BBB' respectively, with Stable Outlooks. The Short-term foreign currency IDR is affirmed at 'F3' and the Country ceiling is affirmed at BBB.

The affirmations are underpinned by the relative resilience of Morocco's economy to the global economic downturn, the continuing improvement of its public finances, and the stability of the Moroccan political system. External finances have, however, suffered from the recession in Europe, which has offset the benefits of lower oil prices. Over the medium-term, Fitch expects key external and public finance solvency ratios to converge on the 'BBB' range median, leaving Morocco's relatively low per capita income as the main weakness compared to similarly rated countries. Progress in diversifying the economy into more high value added areas, reflected in a sustained high growth rate, will therefore be a key rating driver in the medium term.

The Moroccan economy has withstood the global crisis and grew by 5.6% in 2008. Although this is in large part due to the rebound of agricultural output, this performance also benefitted from the ongoing diversification of the economy towards export-oriented industries and services and the large investments in infrastructure and housing, which have been driving the economy in recent years. Due to their limited integration in the global financial system and stringent regulation by the central bank, Moroccan banks were not impacted by the global financial crisis. However, manufacturing declined by 1% in the first quarter of 2009, as export-oriented industries, in particular textiles and auto parts, have been hit by the drop in demand from Europe. In addition, a number of investments planned by foreign investors have been delayed or cancelled. The European recession has also adversely affected worker remittances and tourism income, leading to an increased current account deficit and lower reserves.

The fiscal balance has regularly improved in the last three years as a result of higher tax revenues and a better control of expenses, despite a marked increase in food and oil subsidies in 2008. This has allowed Morocco to progressively reduce its general government debt to 47.3% of GDP at end-2008. Although this remains above the peer group median, the margin is declining and Fitch expects this trend to continue. The majority of debt (79.0% at end-08) is made up of domestic issues, as the state can raise cheap funding thanks to the high liquidity and depth of the local bond market and the low level of local interest rates.

As it has limited raw materials - except phosphates - Morocco faces high dependence on energy. This is partly offset by substantial revenues from tourism and by remittances (8.2% and 7.5% of GDP in 2008 respectively) from emigrant workers and growing foreign direct investment (FDI). The increase in oil and food prices in 2007 and 2008 translated into a marked deterioration in the current account balance. Despite the reduction in oil prices, the current account deficit will remain significant in 2009. In addition, Fitch anticipates a slowdown in FDI. Hence, international reserves will decrease for the second year in a row in 2009. However, due to the surplus accumulated between 2000 and 2007, they still remain at a sound level (5.7 months of current external payments at end-2008). Fitch expects the larger current account deficit to be financed with increased debt, in line with the funding of public sector infrastructure from bilateral and multilateral sources. As a result, Morocco's net external creditor position is set to erode in 2009 and 2010, though remaining stronger than the 'BBB' range peer group.

The political system in Morocco is stable. Radical Islam is marginalized, as the regime has liberalized political life and allowed the emergence of moderate Islamist parties. The king benefits from a real legitimacy among the population, due to his role as leader ("Commandeur") of Moroccan Muslims. However, poverty remains high in rural areas, and social indicators are well below those of investment grade peers. Mounting frustration among the poorest segments of the population could potentially lead to political instability over the longer term if not addressed. (Fitch Ratings14.09)

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11.6 BULGARIA: IMF Mission To Audit Bulgaria's Fiscal Plans 2009/10

A mission of the IMF will pay a visit to Sofia from September 10-21. The mission has been invited by the new government to help it assess the fiscal situation in 2009 and 2010 and plans to disseminate its main conclusions at the end of its visit. Representatives of the European Commission are expected to accompany IMF mission.

Bulgaria's budget deficit shrank to BGN 105 M in August, down 81.4 % on the month after the new government cut spending and took measures to raise revenues. The new center-right government approved at the end of August a mid-term fiscal policy document, which brings together the country's key macroeconomic forecasts for 2010-2013. The document forecasts the contraction of Bulgaria's economy to slow down to 2% next year from a 6.3% shrinking in 2009. The GERB party has vowed to cut public spending by an additional BGN 1,156 B and improve tax collection to avoid slumping into a budget deficit at the end of the year.

Bulgaria, like other eastern European countries, has already been hit by the global crisis, but finance minister Djankov says the hardest blow will come in the autumn. The country's economy may show the first signs of recovery at the beginning of 2010 and is likely to start a rebound in the spring next year, according to Djankov. Given a healthy recovery of the economy, Djankov said plans for a 2% cut in the Value Added Tax (VAT) may be implemented in 2011, to be followed by another 2% decrease before the term of the government expires.

The government plans to apply in November to join the exchange-rate mechanism, the European Union's two-year currency stability test before the country can drop the lev and adopt the euro, and leave the lev tightly pegged to the euro

through the duration of the two years. According to Djankov devaluing the lev, an option that has been supported by a number of experts, is out of the question.

The IMF expects the Bulgarian economy to shrink by 7% in 2009 and another 2,5% the next year, the head of the global lender mission to Bulgaria Bas Bakker told Deutsche Welle at the beginning of July. The forecast beat considerably the figures previously published and came amid new analyzes for the world economy. The new government had initially given indication that it is likely to turn the IMF for help, something the previous government has resisted and most economists would applaud. Earlier, however, in what comes as a U-turn in their position, Finance Minister Djankov said securing a loan from the International Monetary Fund, following Latvia, Romania, Hungary and Ukraine among others, to support the currency peg to the euro, is not an immediate priority for the Bulgarian government. (SMM11.09)

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- Israeli Shekel conversions done at a rate of NIS 4.80 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.60 = \$1.00
- Euro conversions done at a rate of € 1.00 = \$1.40
- Jordanian Dinar conversions done at a rate of JD 1.00 = \$1.41
- UAE Dirham conversions done at a rate of Dh 3.67 = \$1.00
- Omani Rial conversions done at a rate of OR 0.385 = \$1.00
- Pakistani Rupee conversions done at a rate of Rs 82 = \$1.00

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